



# **Judicial Council of California**

## **Administrative Office of the Courts**

Trial Court Financial Policies and Procedures

Policy No.  
Page

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# **ACCOUNTING PRINCIPLES**

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# Accounting Principles

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## 2.0 Purpose

(Original 8/01)

The purpose of this policy is to establish uniform guidelines and accounting principles for the trial court to follow when gathering, summarizing and reporting accounting information associated with the fiscal operations of the court.

## 3.0 Policy Statement

(Revised 9/10)

It is the policy of the Judicial Council of California and the Administrative Office of The Courts (AOC) that all trial courts shall comply with the basic principles of accounting and reporting that are applicable to government units. The trial courts shall execute and account for financial transactions in conformity with generally accepted accounting principles (GAAP) and legal requirements.

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## **4.0 Application**

(Revised 9/10)

This procedure applies to all trial courts of California including trial court judicial officers, employees and agents of the court who are responsible for or participate in the financial operation of the court, the accounting for court revenues and expenditures, and the collection and disbursement of court funds.

## **5.0 Definitions**

(Revised 9/10)

Refer to the Glossary for the following key terms used in this policy.

**Accrual Basis**

**Encumbrances**

**Expenditures**

**Fiscal Year**

**Generally Accepted Accounting Principles (GAAP)**

**Governmental Accounting Standards Board (GASB)**

**Modified Accrual Basis**

**Reimbursable Agreement(s)**

## **6.0 Text**

### **6.1 General**

(Revised 9/10)

Government entities such as the trial courts operate in a unique environment. They must maintain both fiscal and operational accountability over the funds they are responsible for overseeing. The users of trial court financial information; whether they are internal or external to the court, depend upon reliable financial data and reports issued by the court to obtain the information they need to evaluate the court's finances.

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## 6.2 Application of GAAP (Original 8/01)

1. The trial court shall use an accounting system that allows a trial court to conform to GAAP to assure uniformity in financial reporting and to provide a reasonable degree of comparability between trial court and state financial reports.

(Revised 9/10)

2. An accounting system implemented by the trial court must :
  - a. Present fairly and fully disclose the financial positions and results of operations of the court's funds in conformity with GAAP; and
  - b. Determine and demonstrate compliance with all accounting and legal requirements and contractual provisions.
3. Every effort shall be made to comply with GAAP. When legal requirements conflict with GAAP, the basic financial statements shall be prepared in conformity with GAAP. Additional schedules and explanations shall be also issued to conform to legal requirements, if necessary.<sup>1</sup>

Fund Accounting and which basis of accounting should be used for each fund type is discussed in detail in Policy No. FIN 3.01 Fund Accounting.

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<sup>1</sup> National Council on Governmental Accounting, *Accounting Standards and Procedures*, Summary Statement of Accounting Principles, Section 1.04.

## **6.3 Financial Resources Recognition**

(Revised 9/10)

Procedures in this section apply to revenue, reimbursements, and abatements of governmental funds unless other accounting treatment is provided by law.

### **6.3.1 Revenue**

1. Since the trial court derives most of its revenues from state funding and local fees and fines, revenues can be accurately measured and expected to be available within a reasonable amount of time to pay for current liabilities. The trial court must use a 60-day period as the criterion to determine revenue availability. Therefore;
  - a. The trial court must recognize revenues during the current fiscal year when they become both measureable and available to finance expenditures of the current period.
  - b. During the fiscal year, the court must recognize revenue on a cash basis as of the date received or transferred from another fund.
  - c. At fiscal year-end (June 30), revenue earned but not yet received must be accrued and recorded in the accounting system. For detailed year-end accrual procedures see Section 6.8, Year-End Procedures.

### **6.3.2 Reimbursements**

1. Trial courts may also receive funding from other state, local, or federal entities through Reimbursable Agreements or as a result of services provided to other trial courts. The reimbursement may be received by two methods;
  - a. Advanced; or
  - b. Recovered once the service or good has been provided and the expenditure is incurred. Therefore;

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- i. The trial court must recognize reimbursements in the fiscal year when earned, not necessarily when received as in the instance of a prepayment. Prepayments must be recorded as reimbursements collected in advance when received and recognized in the fiscal year when the related expenditures are incurred;
- ii. During the fiscal year, the court must recognize reimbursements and establish an accounts receivable when an invoice is issued to a person, grantor, governmental agency; and
- iii. At fiscal year-end (June 30), reimbursements earned but not yet invoiced must be accrued and recorded in the accounting system. For detailed year-end accrual procedures see Section 6.8, Year-End Procedures.

### **6.3.3 Abatements**

1. All abatements reduce the original expenditure general ledger account and are recorded in the period received. The following must be accounted for as abatements;
  - a. Refunds of overpayments of salaries;
  - b. Rebates from vendors or from third parties for defective merchandise, return of merchandise, return of empty containers, promotional purposes (e.g., incentives to purchase products or services), or other reasons;
  - c. Employee jury duty or witness fees;
  - d. Employee payments for private use of state resources such as personal long-distance telephone charges; and
  - e. Other abatements approved by the AOC for situations not listed above.

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## **6.4 Expenditure Recognition**

(Revised 9/10)

The trial court must recognize expenditures in the fiscal year during which goods are received or services are rendered. Courts may use the cash basis of recognizing expenditures throughout the year and must accrue appropriate amounts at fiscal year-end as described in Section 6.8, Year-End Procedures. If material expenditures are excluded from the financial records, it is preferred that courts recognize expenditure accruals on a quarterly basis. Each fiscal year should bear its fair share of on-going expenditures. The trial court must encumber monies in accordance with Section 6.6, Encumbrances and Sub-section 6.8.3.

## **6.5 Inter-Fund Transfers**

(Revised 9/10)

Inter-fund transfers are used to record the transfer of monies from one fund to another. An inter-fund transfer must be used to record the flow of assets without equivalent flows of assets in return and without a requirement for repayment. Inter-fund transfers received from other funds are reported as Other Financing Sources and must not be treated as revenues or expenditures by either fund involved in the transaction.

## **6.6 Encumbrances**

(Revised 9/10)

Encumbrances are used as a means of ensuring trial court resources are available to pay commitments as they become due. An encumbrance reserves part of a fund until a commitment is paid, cancelled, or expires. At the time of payment, the encumbrance is disencumbered (i.e., reduced) and the Expenditure is recorded. A Purchase Order (PO), Contract, Memorandum of Understanding (MOU), or Intra-Branch Agreement (IBA) cannot be encumbered unless there is an unencumbered balance of an appropriate fund.

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POs, Contracts, MOUs, and IBAs, must be forwarded to the accounts payable provider. Any encumbrance amount over \$500 must be posted in the accounting system ensuring adequate amounts must be reserved for the expenditures contemplated. As invoices related to encumbrances are paid, encumbrances should be disencumbered by an amount equal to the payment. Once the last payment related to the Contract, PO, MOU, or IBA is made, the encumbrances associated with the Contract, PO, MOU, or IBA must be disencumbered. Similarly, all encumbrances associated with Contracts, POs, MOUs, or IBAs that have expired or have been cancelled must also be disencumbered. There are court financial commitments that typically would not be encumbered; examples include monthly telephone services and subscriptions.

#### **6.6.1 One-Time Commitments**

One-Time POs or contracts for delivery of goods or services within the fiscal year must be encumbered for the full amount when issued.

#### **6.6.2 Blanket Purchase Orders**

Blanket purchase orders encumber an estimated amount to cover specific goods or services during the term of the blanket purchase order and are set up by fiscal year.

#### **6.6.3 Multi-Year Contracts/POs**

Multi-year POs, Contract, MOUs, and IBAs must specify on the document the amount to be encumbered for which the performance occurs over several fiscal years. Contract, POs, MOUs, and IBAs for anticipated costs must record an encumbrance for each fiscal year. This requires that each fiscal year bear its fair share of Expenditures for applicable costs.



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#### **6.6.4 Change Orders**

Periodically, changes or amendments to existing POs, Contracts, MOUs, or IBAs are processed. Encumbrances must be adjusted accordingly, to reflect the corresponding increases or decreases.

#### **6.6.5 Canceling an Encumbrance**

An Encumbrance may be cancelled by expiration or by cancellation of the PO, Contract, MOU, or IBA within the terms of the agreement. When this occurs, the unencumbered funds are available for other expenditures or encumbrances of the trial court.

### **6.7 Financial Reporting**

(Revised 9/10)

Financial statements and reports are derived from the accounts and related records of the accounting system. Interim financial statements and reports cover periods of less than one fiscal year (monthly, quarterly, etc.) and are primarily for internal use. Annual and periodic financial statements and reports are prepared each fiscal year to serve the needs of both internal and external users.

#### **6.7.1 Interim Financial Statements and Reports**

Appropriate interim financial statements and reports must be prepared by the trial court to facilitate management control of financial operations. Typically, interim financial statements and reports are designed to accomplish these goals:

1. Allow management to monitor compliance with legal and contractual provisions; and
2. Provide management with information on current performance needed to make future financial plans.
3. Trial court managers must review as frequently as necessary the financial statements and reports derived from the accounts and

related records of their accounting system. At minimum, trial courts should review the following statements and reports monthly by fund:

- a. Balance Sheet – A report that reflects the trial courts assets, liabilities, and fund balance;
- b. Encumbrance Report – Displays all current open encumbrances;
- c. Revenue and Expenditure Statement – Reflects all revenue, expenditures, and other sources and uses; and
- d. Budget to Actual Report – Reflects budget, actual expenditures, encumbrances and available budget balance.

### **6.7.2 External Financial Reports**

External financial reports are used by both internal and external users. The trial court must prepare and submit to the AOC the following external reports:

1. State Comprehensive Annual Financial Report (CAFR) information. The CAFR information is a compilation of worksheets that are annually submitted by the AOC to the State Controller's Office (SCO) once the financial statements for each trial court are complete. The State CAFR includes some GAAP adjustments that are not stated in the trial courts financial statements. The State CAFR includes financial statements and supporting schedules, statistics, other financial information, and introductory material to demonstrate conformity to GAAP and compliance with legal requirements, rules, and regulations. Each year the AOC must issue detailed instructions to the trial courts for the preparation and submission of State CAFR information.
2. Quarterly Financial Statement (QFS). Quarterly, the trial court is required to certify and submit to the AOC a QFS as specified in the instructions issued annually by the AOC's Office of Budget Management. Additional information regarding the QFS is provided in Policy No. FIN 4.02 Budget Monitoring and Reporting,

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Sub-section 6.3.2. The QFS is a document that displays the combined statement of revenues, expenditures, other financial sources and uses, and changes in fund balance for all trial court resources. Expenditures in the QFS are reported by the Program, Element, Component, and Task (PECT) structure. The QFS is used by the AOC as a comparative tool in making management decisions and provides other external reviewers with assurance that the court's operations are within appropriate limits.

## **6.8 Year-End Procedures**

(Revised 9/10)

Trial courts are required to adjust their financial statements at year-end to account for revenues not yet received or expenditures not yet paid as of the last day of the fiscal year (June 30). Trial courts must follow the procedures outlined in this section and additional year-end instructions that the AOC may issue.

### **6.8.1 Year-End Revenue and Reimbursement Accruals**

During year-end closing, the court must:

1. Review all revenue accounts, including entitlements and local revenues, and accrue revenues that may not have been received, but which are both measurable and available.
2. Review all reimbursement accounts including state, local, and federal grants; MOUs with state and local entities; and other reimbursable items and accrue reimbursements for expenditures incurred, but not invoiced as of June 30; and
3. Reverse all revenue and reimbursement accruals in the first month of the new fiscal year.

### **6.8.2 Year-End Expenditure and Related Liability Accruals**

During year-end closing, the court must:

1. Accrue expenditures for all open encumbrances for goods and services that have been delivered or rendered, but not paid as of June 30;
2. Review all Contracts, including Contracts covering more than one fiscal year. Accrue expenditures for services rendered or goods received in the current fiscal year only;
3. Not accrue expenditures for contracts or POs that have a valid, open balance, and the goods or services have not been received by June 30.
4. Accrue expenditures for all direct invoices, not supported through an encumbrance, for which goods or services have been received or rendered, but not paid as of June 30;
5. Prepare and maintain a detailed listing of accruals with actual invoice numbers and amounts noted; and
6. Reverse all expenditure accruals in the first month of the new fiscal year.

### **6.8.3 Year-End Encumbrances**

1. The trial court must review the ending balances for all open POs, MOUs, IBAs, and Contracts and the related encumbrances for validity. Unneeded encumbrance balances, including balances for Blanket Purchase Orders that must not be used by the end of the fiscal year (June 30), must be disencumbered and the disencumbrance must be recorded in that fiscal year.
2. Open encumbrances on June 30 must be handled by the trial court in one of the following ways:
  - a. Accrue encumbrances when goods have been received or services have been provided in the current fiscal year and the invoice must not be paid until the next fiscal year. The accrual

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must be reversed and the payment must be made against the encumbered amount in the next fiscal year off-setting the reversed entry:

- b. Encumbrances budgeted for commitments in the current fiscal year, but goods and services were not received should be reflected on the QFS and the State CAFR information as Reserve for Encumbrances within Fund Balance.
3. The court must retain a complete listing of the current year's year-end encumbrances plus four additional years. See Policy No. FIN 12.01 Record Retention, Section 6.1, Paragraph 5.

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## **7.0 Associated Documents**

(Original 8/01)

**None**